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Pickands Mather & Co.

Annual Report 1967

After turning over the responsibilities of Chief Executive Officer to Keith Benson early in 1967, John Sherwin stated at an employee meeting:

"It has been my privilege over the years to see the longstanding traditions and important industry relationships of the Company serve as the foundation for continuing growth and development on an international scale. I have also had the great opportunity of working with an outstanding group of younger men who are dedicated to perpetuating these traditions, while taking advantage of every opportunity to further the progress and growth of the Company."

Joining Pickands Mather in 1942, Mr. Sherwin became Senior Partner of the firm in 1955, President of the corporation in 1960, and Chairman in 1966. He continues as a member of the Board of Directors and its Chairman.

Pickands Mather & Co.
Annual Report 1967

Highlights of 1967

FINANCIAL

	1967	1966 (1)
Sales of products and operating revenues	$78,816,000	$79,501,000
Depreciation and amortization	3,429,000	2,752,000
U. S. and foreign income taxes	3,898,000	3,655,000
Net income (2):		
Amount	7,003,000	7,150,000
Per share of Common stock (average outstanding) . .	2.92	3.09
Dividends paid (cash):		
Combined Preferred and Common stocks.	2,680,000	2,318,000
Per share on Common stock	1.00	.75
Capital expenditures and investments (net)	9,861,000	16,011,000
At year end:		
Working capital	16,511,000	12,596,000
Long-term debt.	11,944,000	6,887,000
Shareholders' equity. . . .	76,189,000	71,149,000
Common shares outstanding:		
At year end	2,199,957	2,134,325
Average in year.	2,170,868	2,099,161

Notes:
(1) Restated to include, on a pooling of interests basis, the operations of Henry Bower Chemical Manufacturing Company, acquired on November 15, 1967, and The Carbon Limestone Company, acquired on February 21, 1968.
(2) Year 1967 includes extraordinary income of $400,000; $.18 per share of Common stock.

OPERATING

Two Acquisitions
The Carbon Limestone Company
Henry Bower Chemical Manufacturing Company

Four New Mines
Iron Ore Pellets
The Griffith Mine
Savage River Mines
Coal
Chisholm Mine
Mohawk Mine

Two Iron Ore Pelletizing Expansions
Erie Mining Company
Wabush Mines

Two Additional Bulk Freighters
Steamer Charles M. Beeghly
Steamer V. W. Scully

Continued Heavy Investment in Exploration, Research and Development

To Shareholders and Employees:

Consolidated earnings of Pickands Mather & Co. for 1967 were $7,003,300, or $2.92 per share of Common stock, based on the average number of shares outstanding during the year, and including extraordinary income from the sale of investments totaling $400,341, or $.18 per share. These earnings compare to the record $7,149,623, or $3.09 per share, earned during 1966, based on the average number of shares then outstanding, or $2.98 per share based on the increased average shares outstanding during 1967. The per-share figures for both years are after allowance for dividend requirements on the Serial Preferred stock.

The earnings for 1966, which have been restated as explained in Note 2 to the Consolidated Financial Statements, and for 1967 include, on a pooling of interests basis, the operations of Henry Bower Chemical Manufacturing Company, which was acquired on November 15, 1967, and The Carbon Limestone Company, which was acquired on February 21, 1968.

Contributing to the slight decline in net income for the year was a decrease in 1967 of approximately $630,000 in Federal income tax investment credits. Also adversely affecting 1967 profits was a five-week Canadian seamen's strike, which tied up our Labrador Steamship fleet for that period.

During the year, quarterly dividends, at the annual rate of $1.15 per share, were paid on the Convertible Preferred stock and, at the annual rate of $1.00 per share, on the Common stock.

On February 8, 1968, the Board of Directors approved a plan under which Pickands Mather would acquire the business of Arthur G. McKee & Company, subject to the approval of stockholders at the annual meetings of the companies to be held on May 7, 1968. Proxy statements covering this proposed consolidation will be mailed shortly.

Our program of expansion and diversification in those fields closely allied to our traditional businesses continued during the year. The acquisition of Carbon Limestone brings us a large and valuable limestone deposit well located to serve the steelmaking districts of Youngstown, Warren and Pittsburgh. In addition, it has a strong financial position and an able management group experienced in the sales, quarrying and materials handling fields.

Bower Chemical is under the direction of our Manganese Chemicals Division and constitutes an important addition to our participation in the organo-metallic chemical fields. This company also enjoys an excellent reputation in the chemical industry and brings with it a highly competent technical and sales staff, as well as a good market position in the industries it serves.

These two acquisitions were accomplished by issuing 193,425 shares of Serial Preferred, Series B, $25 par value stock and 155,024 shares of Common stock. Both are being operated as subsidiaries under their previous managements.

The past few months have brought the start-up of operations at The Griffith Mine in Ontario, Canada, and Savage River Mines in Tasmania, Australia. These two new properties will bring the iron ore pellet producing capacity of Pickands Mather operations to over 20 million tons per year. Coal production was started successfully in early 1967 at the Chisholm Mine in Kentucky. We are also proceeding with the development for our own account of the Mohawk Mine, a small underground coal mine in West Virginia, which will shortly begin producing high-volatile coal for sale in the metallurgical market.

The Steamers CHARLES M. BEEGHLY and V. W. SCULLY were added to the Interlake and Labrador Steamship fleets, respectively, during 1967. These vessels enable us to continue to serve our customers with as modern and efficient units as exist on the Great Lakes and St. Lawrence Seaway today.

In 1967, the Company spent substantially in excess of $1 million on various new business prospects and on investigation, exploration and research in connection with new mineral properties. Comparable expenditures have been budgeted for 1968. Although these costs are relatively high for a company of our size, we feel they are essential to insure the growth of our business, including new activities in non-ferrous raw materials in which we are not yet participating.

The financial condition of the Company continued strong. The $17½ million revolving credit and term loan agreement was amended at the end of the year to increase the total funds available to $23 million. Of that amount, $10 million will be repaid in five equal annual installments commencing December 31, 1968. The balance, or $13 million, will be available on a revolving credit basis until December 31, 1969, when borrowings thereunder will be converted to a term loan, repayable in five equal annual installments commencing December 31, 1970.

Management changes during the year included the election of Robert S. Carey, formerly Vice President-Ore Sales and Marine, as Executive Vice President and Allen H. Ford, previously Assistant to the Chairman, as Vice President-Finance. Mr. Ford, Robert McInnes, Secretary, and Robert H. Chisholm, President of Carbon Limestone, have been appointed members of the Board of Managers.

Year after year, our employees continue to demonstrate their ability to meet challenging competitive situations. We sincerely appreciate their loyalty and the vital contribution they make to the Company's progress.

Although 1967 produced some disappointment in earnings, it was an important year in building the future value of the Company through the acquisitions and the addition of new mining facilities and vessels. Looking ahead to 1968, the United Steelworkers' contract with the steel industry expires in August. If a major strike occurs in the industry, it could materially affect the Company's earnings for the year. In the absence of a strike, however, we feel that 1968 should bring more profitable levels of operations in all phases of our activities.

On Behalf of the Board of Directors

Keith S. Benson

Keith S. Benson
President

John Sherwin

John Sherwin
Chairman

March 14, 1968

Keith S. Benson

Acquisitions

CARBON LIMESTONE

Headquartered at Lowellville, on the Ohio-Pennsylvania border near Youngstown, The Carbon Limestone Company is a leading supplier of limestone to the steel mills of eastern Ohio and western Pennsylvania, which use it as a flux to carry off the impurities from molten metal. Other of its limestone products are used as aggregate in concrete and asphalt, for railroad ballast and in soil improvement and animal feed applications. A subsidiary, The Carbon Concrete Brick Company, makes over 60 varieties of concrete block and brick at two plants in the area. Employment is about 225 in total.

Combined sales in 1967 were over $4¼ million.

Limited quantities of industrial coal and fire clay are by-products of Carbon's quarrying operations. After the cover of earth has been removed, the limestone is loaded by power shovels into cars for a short rail haul to the processing plant in adjoining Hillsville, Pennsylvania. After primary crushing, further treatment is tailored to the end use and includes additional crushing, screening, blending, washing and, in some cases, drying. The products are shipped from open storage or bins by truck and rail.

As quarrying advances, the earth is graded to conform with the topography of the area and planted as part of a continuing conservation program.

BOWER CHEMICAL

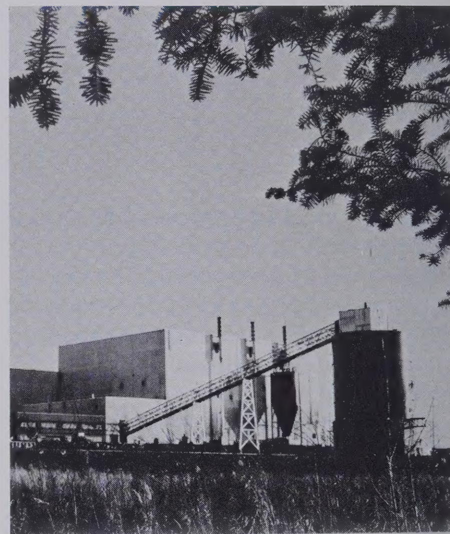
Acquisition of Henry Bower Chemical Manufacturing Company is a major step in expanding Pickands Mather's activities in the chemical industry. The Manganese Chemicals Co. Division produces the widest range of manganese chemicals and compounds in the world, plus hydroquinone and manganese metal. Its experience in ferrous chemistry and Bower's activities in the non-ferrous field enable Pickands Mather to offer a broad line of organo-metallic and organic chemicals. Both Bower and Manganese Chemicals have the modern research and processing facilities needed for this specialized family of high-purity chemicals, and are in ideal raw material and market locations.

Bower is expected to increase Pickands Mather's chemical sales by about $3 million annually.

Founded in 1855 on the Schuylkill River in Philadelphia, Bower is one of the oldest and largest distributors of industrial anhydrous ammonia. Typical of Bower's work with customers to develop new product applications, today's uses of this type of ammonia include metal treating, commercial refrigeration, rubber manufacture, chemical synthesis, petroleum refining, water purification and sewage treatment.

Other Bower products are used in fertilizers, chemicals, foods, furniture, inks, leather, metals, paints, drugs, plastics and textiles.

New Mines



THE GRIFFITH MINE

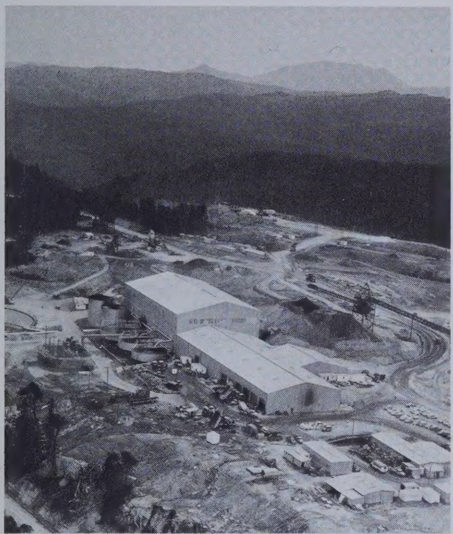
In northwestern Ontario, The Griffith Mine, operated for The Steel Company of Canada, Limited, is now coming into production. Final construction of this mine, which will produce 1½ million tons of high-grade pellets annually, is on schedule and capacity production should be reached during 1968.

This $62 million mining and processing facility is part of Stelco's major expansion program and fulfills its objective of having a source of iron ore in Ontario, the company's home province. It is named in honor of H. M. Griffith, Stelco's president.

The mine, containing reserves sufficient for at least 30 years of production, eventually will be over a mile long, 1,500 feet wide, and 1,000 feet deep.

The plant, containing all the processing and servicing facilities in one building, is the latest design and uses the most efficient equipment available. The primary grinding mills, 32 feet in diameter, and the vertical shaft furnaces for heat-hardening the pellets, are the largest yet operated in the iron ore industry. This type of furnace, resulting from research by Pickands Mather with its steel company associates, was a breakthrough in the original development of pelletizing.

The production from the mine, providing permanent employment for about 350 men, will be transported by rail to the north shore of Lake Superior and shipped by vessel to Stelco's Hilton Works at Hamilton, Ontario.



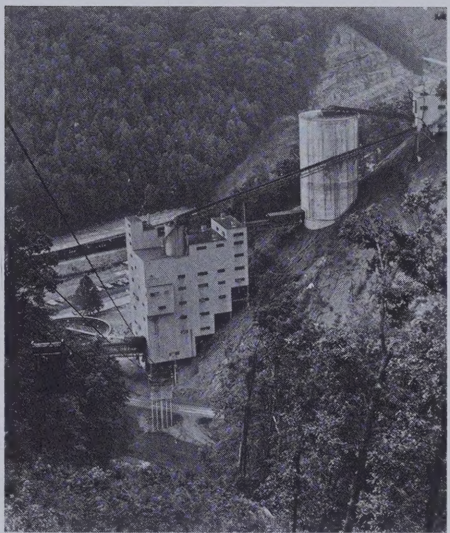
SAVAGE RIVER MINES

Construction of Savage River Mines in Tasmania, Australia, was essentially completed by the end of 1967 and all components of the project are performing successfully during the start-up phase.

Incorporated in this $79 million development are two pioneering facilities for operations of this kind. One is a nine-inch pipeline, 53 miles long, through which a slurry of iron ore concentrates and water is pumped from the concentrating plant at the mine to the pellet plant at oceanside. Although pumping an iron ore slurry is not new, this is the first long-distance pipeline for this purpose. The other unique installation is the offshore loading unit, which is a conveyor belt system built on trestles anchored in the ocean floor and extending over 6,000 feet into Bass Strait, which separates Tasmania from the Australian mainland.

The project, owned equally by Japanese companies and a group of United States and Australian interests, is believed to be the first time the Japanese have joined with an overseas group on an equal basis to develop a major raw material project in another country.

Pickands Mather owns about 12% of the Savage River project, which will produce 2¼ million tons of pellets yearly. All of the Company's ownership tonnage has been sold to Japanese steel companies under a contract covering the life of the mine.

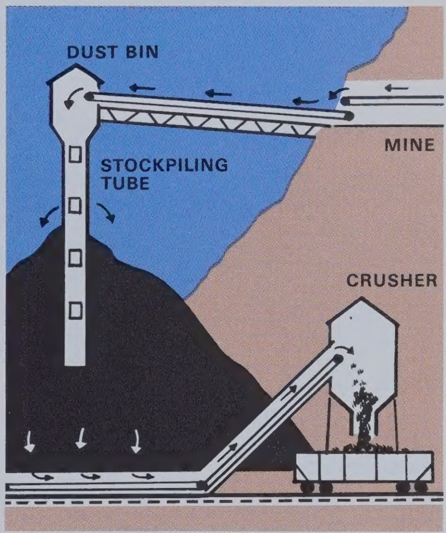


CHISHOLM MINE

In operation since April, just a year after construction started, the Chisholm Mine in southeastern Kentucky produced about ½ million tons of coal in 1967.
Also owned by The Steel Company of Canada, Limited, the mine is named for Jack T. Chisholm, Manager of Raw Materials for Stelco. It assures Stelco of a long-term source of high-grade coal for making coke for blast furnace use, and is another part of the company's expansion program to satisfy the Canadian economy's growing demand for steel.

This property is truly an attractive coal operation, consisting of an underground mine and a preparation plant, along with related maintenance and shipping facilities, that does not disrupt the wooded, rolling terrain of the area. After being mined by machine, the coal is brought to surface by belt conveyor about 300 feet above the plant. With gravity aiding the flow, the coal is crushed and screened to size and then processed by the latest methods for maximum waste removal and tonnage recovery. It is then stockpiled for shipment by rail to Lake Erie and on to Hamilton, Ontario, by vessel.

Employing about 150 men, the mine is scheduled to operate at capacity, or about 1 million tons, in 1968.



MOHAWK MINE

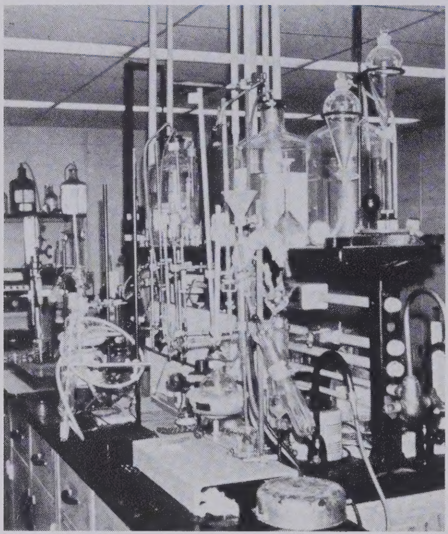
Pickands Mather has acquired and is developing a new underground coal operation, the Mohawk Mine, in West Virginia near the Kentucky border.

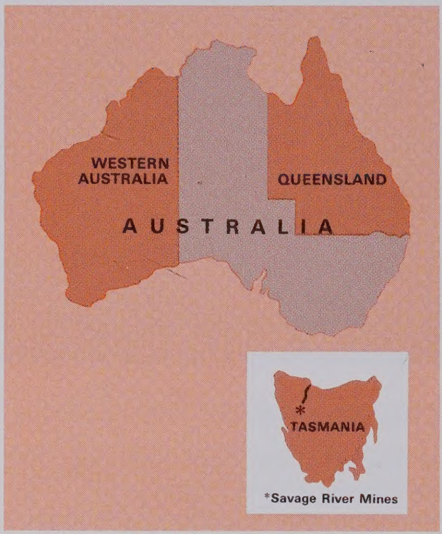
Ultimately to have a yearly capacity of 180,000 tons of coking coal, production is scheduled to begin with one mining unit late this winter and, by mid-year, a second unit should be in service.

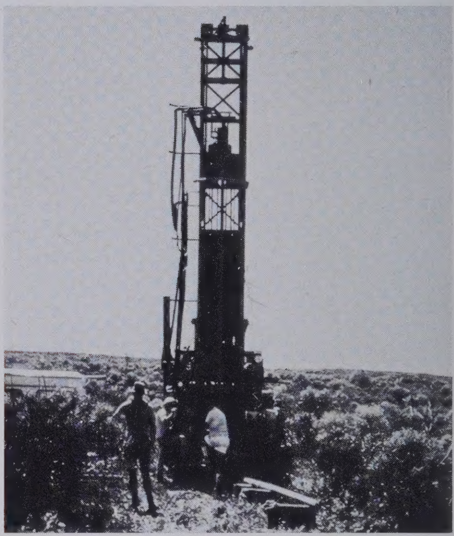
Known as low coal, but so high in quality that only crushing is required, the seam averages 34 inches thick. Mining machines that dig continuously and are built for this type of service will be used, and the coal will be transported to surface, to storage and to the rail loading pocket by a belt conveyor system.

This mine and the Chisholm Mine continue the long-standing coal producing part of Pickands Mather's raw material activities. Other reserve properties are being investigated for possible acquisition to broaden profitably its coal operations.

Exploration, Research and Development







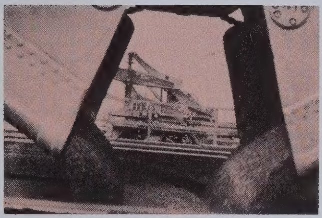
As discussed elsewhere, the Company continues to invest significant money in its exploration, research and development efforts, and these high rates of expenditure are expected to continue in 1968.

The major research and development effort is concentrated in chemical areas through the Manganese Chemicals Division. Although the primary focus of geological exploration is in Australia, during 1967 the Company also participated in exploration programs in Africa for iron, molybdenum and gold, and in Canada for iron and non-ferrous minerals.

In Western Australia, bulk sampling commenced at a nickel-bearing deposit near Ravensthorpe, drilling programs were completed on two base metal prospects and drilling is continuing on three others. Although no significant mineral deposits have been discovered, the nickel-bearing prospect warrants further work. Copper mineralization in the Mt. Angelo deposit near Hall's Creek is extensive but, for the most part, sub-marginal. Further drilling in this and another base metal prospect near Hall's Creek is scheduled for 1968. Other base metal areas of interest in Western Australia were developed during the year and drilling at these is also scheduled for the present year.

Regional prospecting in Tasmania has been completed over the licensed area. Three areas, interesting for their copper, lead-silver and tin possibilities, warrant further exploration.

During 1967, arrangements were made with Conzinc Riotinto of Australia and Kaiser Steel to undertake joint investigation and economic study of a major coal deposit in Queensland, Australia. If development of this property is proven to be feasible, the metallurgical coal produced would be marketed in Japan.



Of the combined 76.3 million-ton annual capacity of iron ore pelletizing facilities reported in operation or under construction in North America, Pickands Mather-operated properties account for 18.7 million tons—or about ¼ of the total.

Management Services

IRON ORE OPERATIONS

The iron ore mines managed by Pickands Mather during 1967 produced a total of 18.1 million tons, of which 15.8 million were high-grade pellets. This compares to total production in 1966 of 16.3 million tons, of which 13.3 million were pellets.

Erie Mining Company is now producing at an annual rate of 10.3 million tons of pellets, following completion on schedule at mid-year of the 2.3-million-ton expansion program.

The expansion of the mine, concentrator and pellet plant of the Wabush Mines joint venture is proceeding according to schedule and, by the middle of 1968, should reach its new rated capacity of 6 million tons per year.

Late in 1967, the West Hill Mine, which has been operated by Pickands Mather since it was opened in 1953, was sold to other interests.

DOCK OPERATIONS

Tonnages handled at the two lower-lake iron ore docks in Ashtabula and Cleveland, the combined iron ore and coal dock at Toledo and the vessel fueling dock at DeTour, Michigan, were at normal rates during the year.

Pickands Mather Divisions

Operating

INTERLAKE STEAMSHIP

Although the bulk freight industry on the Great Lakes carried about 8% less than the year before, Interlake's freight revenues for 1967 were approximately \$17.9 million compared to \$15.8 million in 1966, an increase of 13%.

During the year, 16 of the 19-vessel fleet operated, including the self-unloader, the Steamer FRANK PURNELL. Operations benefited from stable cargo demands and favorable sailing conditions, including high water levels on the lakes, which permit deeper loading.

The Steamer JOHN SHERWIN, Interlake's flagship, carried 946,479 tons of iron ore, which is more than any other Interlake vessel has ever carried in one season. The Steamer CHARLES M. BEEGHLY, newest addition to the Interlake fleet, had a full season of operation.

Wages and other costs of operating the fleet continue to increase. For example, since 1957 labor, repair and drydocking costs have all gone up over 40%. Yet during this same 12-year period, there has not been an increase in the freight rates for iron ore, which is the primary cargo. This has created a serious price-cost squeeze.

LABRADOR STEAMSHIP

Operations during 1967 of the Labrador fleet were severely reduced as a result of a five-week strike by the Seamen's International Union in August and September, which tied up the bulk of the Canadian fleets. Consequently, revenues of this subsidiary were cut to \$2 million, which was substantially less than expected, but \$400,000 higher than 1966. Purchase of the Steamer V. W. SCULLY, sailing its first season under Labrador colors, was completed.

During the season, the Steamer AUGUSTUS B. WOLVIN, the smallest and oldest unit in the Labrador fleet, sustained damage to its hull, which was fully covered by insurance. It was determined that repairing this older, less efficient ship was not warranted and it was sold for scrap. The sale of the ship will not detract from the fleet's operation.

MILWAUKEE SOLVAY COKE

Production of foundry coke continued at high levels throughout the year. Gross sales of the division were approximately $10.8 million, compared to $12 million in 1966 and, accordingly, profitability was also lower. In addition to a slight decline in foundry coke sales, the accumulated inventory of small sizes of coke and breeze, sales of which tend to fluctuate in two to three-year cycles, had been almost completely liquidated in 1966.

MANGANESE CHEMICALS

Although sales of this division were only $300,000 higher than in 1966 ($6.9 million vs. $6.6 million), profit before tax increased significantly, largely due to steady operation of the hydroquinone plant, which is now at capacity, and reduction of operating costs at the metal plant.

The acquisition of Bower Chemical should bring a substantial increase in Pickands Mather's participation in the chemical industry. At the present time, integration of the Bower operation with the Manganese Chemicals operation is taking place, and careful study is being given to the possible combination or relocation of certain of the production facilities.

Sales

COAL

The Coal Division sold or acquired for the Company's own use about 11.2 million tons of coal during the year, in contrast to about 11 million tons in 1966. Gross profit from brokerage sales was slightly lower than 1966, but sales agency commission income was comparably higher.

Sales of fuel oil again increased during the year.

PIG IRON, FERROALLOYS AND COKE

The market for pig iron softened in 1967 and shipments were approximately 15% below 1966. A decline also occurred in the demand for ferroalloys and shipments were approximately 4% below the prior year. Pickands Mather is exclusive sales agent for these products, which are produced by Interlake Steel Corporation.

PRENCO

Pickands Mather again increased its sales efforts in 1967 under the agency agreement with Prenco Manufacturing Company of Royal Oak, Michigan, in which the Company also has an investment. Interest in these fluid industrial waste disposal units continues to grow and successful operation of the units installed has proven their effectiveness. While sales have taken longer to develop than estimated, the outlook for both sales and the investment is good, in view of the constantly increasing attention to water and air quality control.

IRON ORE

During 1967, the tonnage available to Pickands Mather for sale from its interests in Wabush Mines and The Hilton Mines amounted to slightly over ½ million tons, all of which was sold. Because of decreased requirements for specialty ores, brokerage sales of these ores were considerably lower than in 1966.

Investments

INTERLAKE STEEL

Interlake Steel reported preliminary earnings per share of $3.15 in 1967, compared to $3.68 in 1966. Pickands Mather owns 402,877 shares, or approximately 9%, of the outstanding stock of Interlake Steel and dividend income of $1.80 per share totaled about $730,000 in 1967.

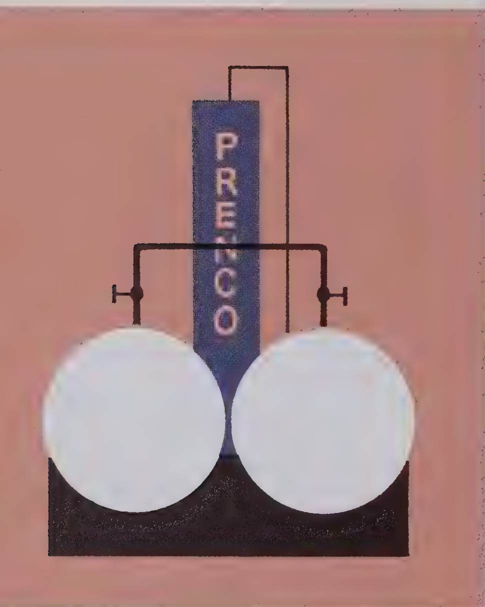
1 The Erie Mining Company expansion included adding 330 feet to the concentrator building for a total length of 1,440 feet—almost ⅓ of a mile—and a fifth tailings thickener. Ten autos could park along the 255-foot diameter of each thickener tank, which is part of the elaborate system to recover most of the process water for re-use.

2 The Steamer V. W. Scully, named in honor of the Chairman of The Steel Company of Canada, Limited, joined the Labrador Steamship fleet in 1967. It is identical in length—730 feet—and carrying capacity—26,000 tons—to the fleet's other maximum-size bulk carrier, the Motor Vessel A. S. Glossbrenner.

3 Along with mining and concentrating facilities being added to the Scully Mine at Wabush, Labrador, the major part of the million-ton-plus expansion at Wabush Mines involves the pelletizing plant at Pointe Noire, Quebec.

4 The other ship flying the Pickands Mather house flag for the first time in 1967, the Steamer Charles M. Beeghly was rechristened in honor of the Chairman of Jones & Laughlin Steel Corporation. The Beeghly and the Steamer John Sherwin, sister ships, have the largest cargo capacities in the Interlake fleet, 25,000 tons each. For optimum scheduling and other peak operating efficiencies, a mathematical model of the fleet is run on a computer.

DIVERSIFIED GROWTH IN PICKANDS MATHER'S FUTURE



The growing number of Prenco installations has proven their effectiveness in disposing of industrial wastes economically and without smoke, odor or visible ash.

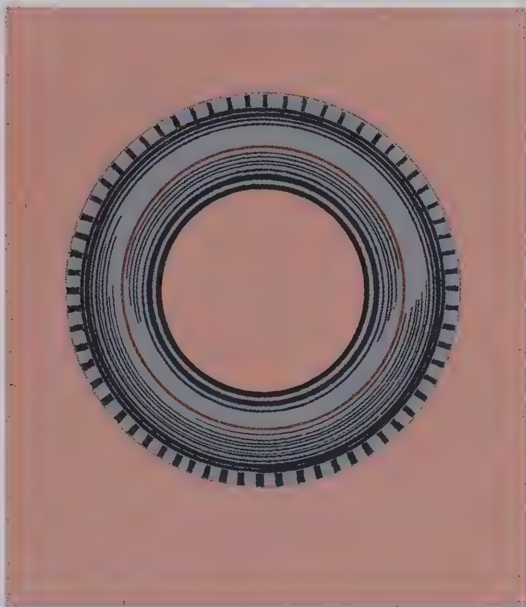
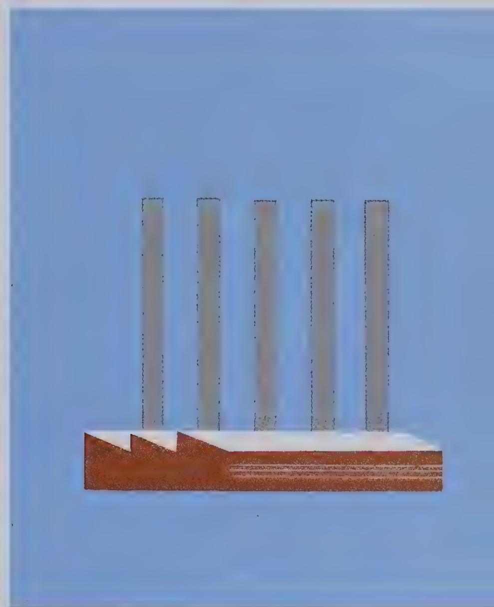
Ammonium bicarbonate, one of Bower Chemical's many products, makes saltine crackers light and fluffy.

Portable power provided by dry cell batteries requires manganese dioxide—one of the wide range of chemicals produced by Manganese Chemicals.

A subsidiary of Carbon Limestone, Carbon Concrete Brick, makes over 60 shapes and sizes of concrete block and brick at two plants in the Youngstown, Ohio, area.

Aggregate for both concrete and asphalt road surfaces is typical of the many uses—from blast furnace flux to fertilizer components—for Carbon Limestone's products.

Iron and manganese are among the most critical mineral supplements required by all animal and vegetable life. Several Manganese Chemicals' products are used in animal feed and fertilizer.


Various manganese salts, part of Manganese Chemicals' product line, are components of the flux that makes electric welding possible.

Several products of Manganese Chemicals are used in the ceramic ferrite yoke surrounding the neck of a television picture tube, typical of the many applications of ferrites in the electronics industry.

Manganese Chemicals produces about 2½ million pounds of hydroquinone annually. Among its principal uses are a family of anti-oxidants widely used in rubber chemistry.

Copper salts, a Bower Chemical product, are used in the manufacture of inorganic pigments.

As a step toward cleaner air, organo-metallics made by Manganese Chemicals are used in formulating a number of additives to improve the combustion efficiency of solid and liquid fuels.

Companies that formulate mineral fertilizers for agricultural application, such as Carbon Limestone, use manganese sulphate and manganese oxide, products of Manganese Chemicals.

Consolidated Balance Sheet—December 31, 1967

ASSETS	1967	1966*
Current assets:		
Cash and short-term securities	$ 10,222,828	$ 9,495,131
Accounts receivable, less allowance of $148,482 ($157,246 in 1966)	16,080,475	15,474,418
Inventories, at lower of cost or market:		
Coke, coal, iron ore, limestone and other products	3,151,078	2,935,500
Operating materials (including coking coal) and supplies	3,940,997	3,019,266
Prepaid insurance and other expenses	269,081	211,813
Total current assets	33,664,459	31,136,128
Investments and other assets:		
Marketable stocks and bonds-quoted market $15,216,298 ($14,600,730 in 1966)	11,680,163	11,907,612
Other securities and advances	6,197,723	6,062,543
Cash surrender value of life insurance policies	957,197	913,720
	18,835,083	18,883,875
Capital assets, at cost:		
Mineral (principally Canadian) and other lands	3,374,790	3,049,208
Vessels	70,932,748	58,726,871
Buildings, structures and land improvements	3,987,496	3,887,486
Machinery, equipment, aircraft, etc.	14,748,698	14,134,843
Construction in progress	431,098	5,255,187
	93,474,830	85,053,595
Accumulated depreciation	32,742,360	30,762,536
	60,732,470	54,291,059
Patents and licenses, less amortization	122,349	357,347
	$113,354,361	$104,668,409

*Restated as described in Note 2 to the Consolidated Financial Statements.

LIABILITIES

	1967	1966*
Current liabilities:		
Accounts payable	$ 10,544,749	$ 10,041,083
Accrued payrolls, pensions, claims and winter repairs	2,352,850	2,497,862
Accrued taxes:		
U. S. and foreign income	837,392	1,418,542
Other	363,203	357,418
Current installments of long-term debt (Note 3)	3,055,440	4,225,440
Total current liabilities	17,153,634	18,540,345
Long-term debt (Note 3)	11,943,777	6,886,717
Reserves for pension allowances (Note 4) and periodic fleet inspection	1,280,552	1,429,264
Deferred U. S. and foreign income taxes	6,629,882	6,509,077
Minority interest in subsidiary company	157,927	153,741
Stockholders' equity:		
Capital stock (Notes 2, 5 and 6):		
Serial Preferred—$25 par value; authorized—800,000 shares; outstanding—		
Series A, convertible—392,225 shares	9,805,625	9,805,625
Series B, convertible—193,425 shares	4,835,625	4,835,625
Common—$.50 par value; authorized—4,000,000 shares; outstanding—2,199,957 shares (2,134,325 in 1966)	1,099,979	1,067,163
Capital surplus (Note 7)	9,308,585	8,625,728
Retained earnings (Note 3)	51,138,775	46,815,124
	76,188,589	71,149,265
Contingent liabilities (Note 8)		
	$113,354,361	$104,668,409

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Income:		
Sales of products	$58,089,617	$61,535,659
Cost of sales	51,741,104	54,340,547
Gross profit from sales	6,348,513	7,195,112
Freight and other operating revenues	20,726,345	17,965,284
Operating expenses	14,056,705	12,170,737
Gross profit from operations	6,669,640	5,794,547
Sales commissions	2,774,424	2,682,248
Management and consulting fees	2,736,244	2,672,460
Dividends, royalties and other income	2,578,362	2,895,662
	8,089,030	8,250,370
	21,107,183	21,240,029
Expenses:		
Administrative, selling and general (net)	9,265,467	9,217,603
Investigation, exploration and research	834,635	901,046
Interest on debt	505,659	316,577
	10,605,761	10,435,226
Income before U. S. and foreign income taxes and item below	10,501,422	10,804,803
U. S. and foreign income taxes:		
Current year (less investment credit—$29,689 in 1967, $661,011 in 1966)	3,777,658	3,068,315
Deferred	120,805	586,865
	3,898,463	3,655,180
Income before extraordinary item	6,602,959	7,149,623
Gain from sale of investments, less applicable income tax of $133,450	400,341	
Net income for the year	$ 7,003,300	$ 7,149,623
Net income per share of Common stock:		
After preferred dividend requirements:		
Before extraordinary item	$2.74	$3.09
Extraordinary item	.18	—
Net income	$2.92	$3.09
Pro forma, assuming conversion of preferred stock and exercise of outstanding stock options:		
Before extraordinary item	$2.32	$2.52
Extraordinary item	.14	—
Net income	$2.46	$2.52

Per share computations are based upon the average number of Common shares outstanding and the Common shares issued under poolings of interests. The pro forma computation also reflects Common shares issuable upon conversion of the preferred stock and the number of Common shares that would be issued if outstanding stock options were exercised and the proceeds were used to retire 5% long-term debt.

*Restated as described in Note 2 to the Consolidated Financial Statements.

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Balance at beginning of year:		
Pickands Mather & Co.	$39,225,692	$34,777,544
Subsidiaries pooled in 1967 (Note 2)	7,589,432	7,269,682
	46,815,124	42,047,226
Net income for the year	7,003,300	7,149,623
	53,818,424	49,196,849
Dividends:		
Serial Preferred—$25 par value—Series A—$1.15 in 1967 ($.575 in 1966)	451,073	225,536
Common—$1.00 in 1967 ($.75 in 1966)	2,024,522	1,215,350
Other—pooled companies and on retired stock	204,054	940,839
	2,679,649	2,381,725
Balance at end of year	$51,138,775	$46,815,124

*Restated as described in Note 2 to the Consolidated Financial Statements.

To the Stockholders and the Board of Directors of Pickands Mather & Co.

In our opinion, the accompanying consolidated balance sheet, the related statements of consolidated income and retained earnings, and the summary of financial activities present fairly the financial position of Pickands Mather & Co. and its subsidiaries at December 31, 1967, the results of their operations and supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Price Waterhouse & Co.

Cleveland, Ohio
February 15, 1968

Notes to 1967 Consolidated Financial Statements

Note 1—Basis of consolidation:

The accompanying consolidated financial statements reflect the accounts of all majority-owned domestic and foreign subsidiary companies, including companies pooled as described in the following note.

Note 2—Acquisitions:

In November, 1967 and February, 1968, respectively, Henry Bower Chemical Manufacturing Company and The Carbon Limestone Company became wholly-owned subsidiaries through the issuance by the Company of 193,425 shares of Serial Preferred stock, Series B, and 155,024 shares of Common stock, in exchange for their outstanding common stocks. The transactions were accounted for as poolings of interests and, accordingly, the accompanying statements combine the accounts and results of operations of Pickands Mather, Bower Chemical and Carbon Limestone for 1967, and the 1966 financial statements have been restated to include the acquired companies on a comparable basis. Net sales and net income, respectively, of these companies aggregated, 1966—$7,335,778 and $683,462 and, 1967—$7,409,183 and $590,352 (after deducting $123,000 for net losses in connection with an abandoned project which was initiated in 1962).

Note 3—Long-term debt:

	December 31, 1967	December 31, 1966
Bank loans payable:		
Term notes	$10,000,000	
Revolving credit notes	3,000,000	$ 4,800,000
Obligations under vessel purchase agreements	1,824,217	6,037,157
Other notes payable	175,000	275,000
	14,999,217	11,112,157
Less—Current installments	3,055,440	4,225,440
	$11,943,777	$ 6,886,717

The credit agreement underlying the bank loans, as amended in 1967, provides for maximum borrowings of $23,000,000 and for interest at the prime rate plus ¼% (minimum 4½%, maximum 5%) on the term notes and at the prime rate plus ¼% on the revolving credit notes outstanding at December 31, 1967. Term notes are payable in five equal annual installments (1968/1972) and revolving credit loans are convertible to term notes payable in five equal annual installments (1970/1974). Under the agreement, the Company is required to maintain consolidated net current assets of $10,000,000.

Note 4—Pension plans:

The Company and its subsidiaries have several pension plans covering substantially all of their employees. Provision for pension costs, including amortization of prior service costs principally over 30 years, was $1,242,000 in 1967. It is the policy generally to fund pension costs accrued, except for one plan for which the liability for accrued benefits is included in the accompanying balance sheet. The actuarially computed value of vested benefits as at December 31, 1967 under certain of the plans exceeded the total of the respective pension funds by approximately $2,000,000.

Note 5—Preferences of Serial Preferred stock:

The Serial Preferred stock, $25 par value per share, is redeemable (not prior to August 1, 1971 in the case of Series A and January 1, 1973 in the case of Series B) at $26.25 and at decreasing amounts thereafter to $25. The preferred stock is voting and is entitled to cumulative dividends (beginning December 1, 1967 in the case of Series B) at $1.15 per year. It may be converted into Common stock at the rate of 5/7ths of a share of Common for each share of preferred.

Note 6—Common stock reserved and stock option plans:

At December 31, 1967, 418,322 shares of Common stock were reserved for conversion of Serial Preferred stock, Series A and B, (Note 5) and 315,250 shares were reserved for sale to key managerial employees by the terms of stock option plans, of which options were outstanding for all except 17,000 shares.

No changes in the status of options occurred in 1967 except for the exercise of options for 65,632 shares at prices ranging between $10 and $15 (being fair market values at dates of grants). Outstanding stock options at December 31, 1967 aggregated 298,250 shares, of which options for 130,517 shares were exercisable.

Note 7—Changes in capital surplus:

Balance December 31, 1966	$11,641,398
Deduct—Adjustment relating to poolings of interests	3,015,670
	8,625,728
Excess of proceeds over par value of common stock issued under options	694,316
Other changes	(11,459)
Balance December 31, 1967	$ 9,308,585

Note 8—Contingent liabilities:

Wabush Project—At December 31, 1967 the Company, through its ownership in Wabush Iron Co. Limited, had an aggregate investment of $4,196,375 in the Wabush Mines project in Newfoundland and Quebec, Canada. The Company is committed to purchase its ownership proportion (5.2%) of the iron ore pellets produced and to pay therefor as a minimum, its proportionate share of the costs, with the provision that the amounts included in such costs for depreciation, depletion, etc. in any year shall not be less than the sinking fund requirements for the bonds issued to finance the project. The portion of the annual sinking fund requirements attributable to the Company's participation in the project will not exceed approximately $495,000 annually over the next 23 years.

Savage River Project—Pickands Mather & Co. International, a wholly-owned subsidiary of the Company, through its ownership in Northwest Iron Co. Ltd., had at December 31, 1967 an approximately 12% interest, carried at $1,050,000, in the Savage River project in Tasmania, Australia, which is currently in its start-up phase. Both the subsidiary and the Company have, in connection with the financing by Northwest of its 50% interest in the project through the issuance of $35,750,000 of debentures and notes, agreed, to the extent of 33⅓%, to advance funds to Northwest required (1) to maintain its working capital at a minimum of $500,000 and (2) to provide the project with any funds, in excess of $87,000,000, not otherwise provided, required to complete construction of the project. The Company is also contingently obligated, to the extent of $1,027,000, as guarantor under certain project auxiliary facility agreements.

Note 9—Proposed merger:

Reference is made elsewhere in this annual report for information on the proposed merger with Arthur G. McKee & Company.

Consolidated Summary of Financial Activities

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966*
Funds derived from operations:		
Consolidated net income for the year	$ 7,003,300	$ 7,149,623
Charges to income involving no cash outlay:		
Depreciation, depletion and amortization	3,429,042	2,751,659
Deferred U. S. and foreign income taxes	120,805	586,865
Other charges	217,773	199,533
	10,770,920	10,687,680
Other funds provided:		
Increase in long-term debt	5,057,060	1,248,217
Sale of stock under stock option plans	727,132	702,700
	$16,555,112	$12,638,597
Application of funds:		
Dividends	$ 2,679,649	$ 2,381,725
Capital expenditures (net)	9,846,295	14,879,848
Investments in securities, advances, etc., (net)	15,033	1,130,670
Other	99,093	648,469
	12,640,070	19,040,712
Increase (decrease) in consolidated working capital	3,915,042	(6,402,115)
	$16,555,112	$12,638,597

*Restated as described in Note 2 to the Consolidated Financial Statements.

Five Year Review of Financial Data 1963-1967

(Dollars in thousands, except per-share data)

	1967	1966	1965	1964	1963
Sales of products and operating revenues	$ 78,816	$ 79,501	$ 76,506	$ 59,292	$ 57,877
Gross profit from sales and operating revenues	13,018	12,990	11,407	10,775	9,142
Sales commissions, management fees, dividends, royalties, etc.	8,089	8,250	7,383	7,108	5,974
Income before U. S. and foreign income taxes	11,035	10,805	9,963	9,343	7,024
U. S. and foreign income taxes	4,032	3,655	3,542	3,265	2,984
Net income	*7,003	7,150	6,421	6,078	4,040
Net income per share of Common stock (after allowance for dividend requirements on Serial Preferred stock)	*2.92	3.09	2.80	2.65	1.66
Dividends paid per share on Common stock	1.00	.75	.50	.50	.50
Capital expenditures and investments (net)	9,861	16,011	3,993	4,478	2,227
Depreciation, depletion and amortization	3,429	2,752	2,576	2,502	2,569
At Year End:					
Working capital	16,511	12,596	18,986	15,084	14,510
Long-term debt	11,944	6,887	5,639	5,149	6,160
Shareholders' equity (including $14,641,250 par value of Serial Preferred stock)	76,189	71,149	65,644	61,309	57,037
Common shares ($.50 par value) outstanding:					
At year end	2,199,957	2,134,325	2,056,745	2,046,127	2,032,277
Average in year	2,170,868	2,099,161	2,052,795	2,041,531	2,029,534

This summary reflects the retroactive accounting, on a pooling of interests basis with the Company, for the merger in 1966 with The Interlake Steamship Company and the subsequent acquisitions of Henry Bower Chemical Manufacturing Company and The Carbon Limestone Company.

*Includes extraordinary income of $400,000; $.18 per share of Common stock.

Operational Summary

General Offices:
Cleveland, Ohio

Divisions:

MARINE

The Interlake Steamship Co.
Nineteen Great Lakes bulk freighters, including a self-unloader.
Combined per trip capacity: 308,800 gross tons

Labrador Steamship Company Ltd. ●
Three St. Lawrence Seaway bulk freighters.
Combined per trip capacity: 65,800 gross tons

DOCK

Operations:

The Ashtabula & Buffalo Dock Company ●
The Erie Dock Company ●
Iron ore unloading at Ashtabula and Cleveland, respectively

The Toledo Lakefront Dock Co. ▲
(joint management)
Coal loading and iron ore unloading

The Detour Dock Company ▲
Vessel fueling at DeTour, Mich.

The Marquette Dock Company ▲
Portage Coal & Dock Company ●
Coal unloading at Marquette and Hancock, Mich., respectively

COAL

Mining Operations:

Chisholm Mine

Mohawk Mine ●

Exclusive Sales Agencies:

Prenco Industrial Waste Disposal Systems ▲

Representing seventeen coal producers in Ohio, Indiana, Pennsylvania, Kentucky, West Virginia, Virginia, and Maryland

PM Oil Co.
Industrial diesel fuel

PIG IRON, FERROALLOYS AND COKE

Exclusive Sales Agencies:

Foundry products and ferroalloys produced by Interlake Steel Corporation ▲

Industrial coke produced by Chevrolet—Saginaw Grey Iron Foundry Division of General Motors Corporation

Sales of Milwaukee Solvay coke and Massive Manganese metal

Sales Offices:

Chicago • Detroit • Duluth • Erie, Pa. • Greensboro, N. C. • Indianapolis • Marquette, Mich. • New York City • Pittsburgh • St. Louis • Washington

MILWAUKEE SOLVAY COKE CO.
Producing foundry coke and by-products

MANGANESE CHEMICALS CO.
Producing manganese chemicals and metal, and hydroquinone

Other Principal Subsidiaries:

The Carbon Limestone Company ●
Producing limestone and concrete products, and coal

Henry Bower Chemical Manufacturing Company ●
Producing organic and organo-metallic chemicals

Pickands Mather & Co. International ●
Sydney and Perth, Australia
Tokyo, Japan
Exploration, market development and iron ore mining

Pickands Mather (France) S. A. R. L. ●
Paris, France
Market development and mineral investigations

Syracuse Mining Company ●
Metallurgical and research laboratory

Iron Ore:

OPERATIONS

(Products and annual capacities)

United States

Erie Mining Company—pellets, 10.3 million tons

Mahoning Mine
Danube Mine —concentrates, 2 million tons combined

Canada

Wabush Mines—pellets, 6 million tons ▲

The Hilton Mines—pellets, 900,000 tons ▲

The Griffith Mine—pellets, 1.5 million tons

Tasmania, Australia

Savage River Mines—pellets, 2.25 million tons ▲

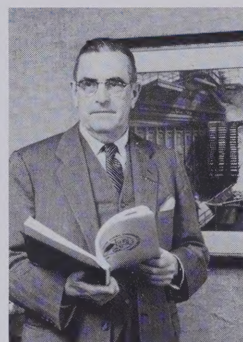
SALES

Iron ore pellets, blast furnace and open hearth ores, and magnetite media.

KEYS: ● Subsidiary
▲ Ownership interest

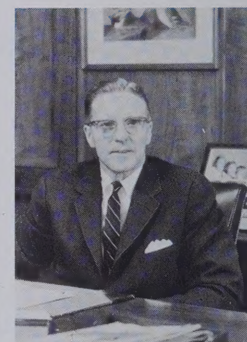

F. R. Dykstra


B. F. Borgel


J. H. Bemis


C. S. Arms


D. M. Chisholm


G. S. Lockwood


R. S. Carey


J. S. Crawford


A. H. Ford


Elton Hoyt


R. P. Batchelor

Board of Directors

Charles S. Arms

Keith S. Benson

Robert S. Carey

Donald M. Chisholm

E. Mandell DeWindt
President, Eaton Yale & Towne Inc.

J. Richardson Dilworth
Rockefeller Family & Associates

Alfred S. Glossbrenner
Director, The Youngstown Sheet and Tube Company

James A. Hughes
President, Diamond Shamrock Corporation

Henri P. Junod
Retired Vice Chairman of the Board, Pickands Mather & Co.

George S. Lockwood, Jr.

Horace A. Shepard
President, TRW Inc.

John Sherwin

Officers

John Sherwin, *Chairman of the Board*

Keith S. Benson
President and Chief Executive Officer

Robert S. Carey, *Executive Vice President*

Charles S. Arms, *Vice President—Planning*

Roger P. Batchelor, Jr.
Vice President—Engineering and Construction

John H. Bemis, *Vice President and President, Milwaukee Solvay Coke Co. Division*

Bernard F. Borgel
Vice President—Operations

Donald M. Chisholm
Vice President—Administration

John S. Crawford, II
Vice President—Coal Division

Franz R. Dykstra
Vice President and President, Manganese Chemicals Co. Division

Allen H. Ford, *Vice President—Finance*

Leonard J. Gee, *Treasurer*

Raymond G. Hiscox, *Controller*

Elton Hoyt III, *Vice President—Pig Iron, Ferroalloy and Coke Division*

George S. Lockwood, Jr.
Vice President—Sales

Robert McInnes, *Secretary*

Officers of Major Subsidiaries

Robert H. Chisholm
President, The Carbon Limestone Company

William E. Conway
Executive Vice President and Managing Director, Pickands Mather & Co. International

Raymond R. Hull, *President, Henry Bower Chemical Manufacturing Company*

Capital Stock

Common Stock and
$1.15 Convertible Preferred Stock,
Series A and Series B

Traded on the Over-The-Counter Market

Transfer Agent:
The Cleveland Trust Company
Euclid Avenue at East 9th Street
Cleveland, Ohio 44101

Registrar:
Society National Bank of Cleveland
127 Public Square
Cleveland, Ohio 44114

Certified Public Accountants

Price Waterhouse & Co.

General Offices

2000 Union Commerce Building
Cleveland, Ohio 44115

Annual Meeting

The annual meeting of shareholders will be held at 10 A.M. Tuesday, May 7, 1968, at 100 West Tenth Street, Wilmington, Delaware. A formal notice of the meeting, proxy statement and proxy ballot will be sent to shareholders shortly after the date of record for the meeting, which is March 20, 1968.